

REBUTTAL TESTIMONY OF
ROBERT G. FERLMANN
ON BEHALF OF
CENTRAL ILLINOIS LIGHT COMPANY
DOCKET NO. 00-0579

CILCO

12/18/00

00-0579

cad

Q1. Please state your name and business address.

A1. My name is Robert G. Ferlmann, and my business address is 300 Liberty Street, Peoria, Illinois, 61602.

Q2. Are you the same Robert G. Ferlmann who previously submitted prepared direct testimony in this proceeding?

A2. Yes, I am.

Q3. What is the purpose of your prepared rebuttal testimony?

A3. I will respond to the testimony of Staff witnesses Larson and Christ, and IIEC witness Dauphinais.

QVB
witness
Sterzinger

Q4. CILCO proposes the use of a forward-looking period to calculate the FAC costs to be included in base rates. In projecting those costs, CILCO used the average cost of purchased power over a five-year period. Mr. Larson opposes use of any period beyond the first 15 months after the date of filing. What is CILCO's response?

A4. CILCO used a five-year period to calculate purchased power costs because CILCO cannot request the reinstatement of the FAC for five years. The use of that five-year period is appropriate to calculate "the reasonable, prudent and necessary jurisdictional power supply costs" during the projected 12-month period, as specified in the statute. For example, CILCO's purchased power contract with CIPS provides for energy at a fixed price of \$24 per Mwh during the peak hours of the summer months. That price is far below market. Even during the relatively cool summer of 2000, the CIPS energy rate was well below the daily market price. However, the CIPS contract will only be in place during the first three years of the five-year period. CILCO should not be required to base

its purchased power costs on the \$24 energy charge in the CIPS contract, when it is known that the contract will be in place only through 2003, or 60% of the five-year period. To reflect this fact, CILCO included only 60 of the 100 Mw provided under the CIPS contract in the calculation of the purchased power costs, with the balance priced at market. Consistent with this approach, CILCO also used the forward futures prices for five years, which on average are lower than the prices applicable during the 15 months immediately following the filing. As Mr. Larson acknowledges in his direct testimony, if the Commission were to accept his proposal, then the purchased power costs would increase to reflect the higher power purchase costs during the first 15 months after the filing.

Q5. What are the proposals of Staff witness Christ?

A5. Mr. Christ supports CILCO's use of the forward prices on the CINERGY futures market to estimate future costs. However, like Mr. Larson, Mr. Christ opposes CILCO's use of a five-year average to calculate future costs. I explained the reason for use of the five-year average in response to the testimony of Mr. Larson. In addition, Mr. Christ would use actual prices experienced during the months July through October of 2000, rather than the CINERGY forward prices used by CILCO at the time of filing.

Q6. Do you agree with Mr. Christ's use of actual prices for the first four months of the projected period?

A6. No, I do not. There is no reason to believe that the actual prices experienced during July through October, which included unusually cool months, are better indicators of the prices that will be experienced during those months in the future, when the weather is normal. I suspect that if July of 2000 were as hot as July of 1999, with equally high prices, and CILCO proposed to revise its filing to include the higher actual costs, there would be an objection. The purpose of this proceeding is to determine the reasonable, prudent and necessary costs of purchased power, not the costs experienced during one of the coolest summers in many years. Further, when CILCO purchases on the forward

market, CILCO does not realize historical prices. CILCO must buy at the prices based on the futures market. Mr. Christ's recommendations should be rejected.

Q7. What is the purpose of CUB witness Sterzinger's testimony?

A7. CUB witness Sterzinger proposes some of the same changes recommended by Staff, including use of the entire 100 Mw of CIPS energy at \$24 per Mwh, the allocation of FAC costs to non-FAC sales to reflect at least the average of fuel costs and purchased power costs, and the rejection of CILCO's use of any period longer than 15 months to calculate purchased power costs. In addition, Mr. Sterzinger rejects the use of the CINERGY futures prices to represent purchased power costs until CILCO has demonstrated, to Mr. Sterzinger's satisfaction, that the CINERGY prices represent the lowest reasonable cost. Mr. Sterzinger also proposes that the FAC costs included in base rates be higher in the summer period and lower in the winter, to provide proper price signals to customers and avoid encouraging greater use during the peak summer periods.

Q8. What is your response to Mr. Sterzinger?

A8. On those recommendations that are the same as or similar to the recommendations of Mr. Larson, my response to Mr. Larson is my response to Mr. Sterzinger. Mr. Sterzinger is incorrect in suggesting that CILCO has not shown that the CINERGY futures prices are the lowest cost available. As stated in my direct testimony, the CINERGY futures market is regularly used for the pricing of energy in the MAIN region, and the CINERGY prices have proved over time to be a reliable measure of the cost of power purchased for use in the MAIN area. As a utility short summer generation, the only way for CILCO to offer fixed pricing would be to purchase forward physical contracts. The CINERGY curve is highly indicative of where CILCO would have to buy. CILCO would not wait to purchase summer energy in the daily market and risk prices of \$1,000 and higher per Mwh.

Q9: What is your response to Mr. Sterzinger's proposal to include a summer-winter differential for the FAC costs used in the base rates.

A9. I agree with Mr. Sterzinger's reasoning. I have calculated a base rate charge with a summer-winter differential. The charge to be included in base rates during the four calendar months June through September should be \$.01664 per Kwh, and for the remaining months \$.01007 per Kwh. This calculation uses the allowable energy costs during the respective periods divided by the applicable Kwh usage.

Q10. Do you have additional responses to Mr. Sterzinger's testimony?

A10. Yes. Mr. Sterzinger does not dispute that CILCO will be required to purchase power to meet customer usage. However, because Mr. Sterzinger is not satisfied that the CINERGY futures market offers the lowest reasonable cost of purchased power, he fails to include any purchased power cost in his calculation of CILCO's FAC charges. If Mr. Sterzinger believes some other source of information is available and will better predict the future price of purchased power, he should propose it. Mr. Sterzinger's inability to offer any alternative basis for pricing purchased power in the future confirms CILCO's and Staff's contention that the CINERGY futures market is the appropriate basis for projecting future costs.

Mr. Sterzinger also objects to CILCO's use of June 20, 2000, as the date for determining the CINERGY futures prices. That date was used because it was during the time that information was accumulated and incorporated into CILCO's filing at the end of July, 2000. For comparative purposes, the forward prices built into the filing for July and August of 2001 were \$126 per Mwh. Currently, those actual future prices are trading at \$135 per Mwh.

Q11. What proposals are made by IIEC witness Dauphinais?

A11. Mr. Dauphinais offers essentially the same objections as Staff witness Larson to the use of five years to calculate the future prices of purchased power. My response to Mr. Dauphinais on this point is the same as my response to Mr. Larson. In addition, I note that Mr. Dauphinais is inconsistent in his approach. He takes the position that CILCO

should not use anything other than the projections for the actual twelve month period proposed to calculate FAC costs, but Mr. Dauphinais himself proposes to use historical prices as a proxy for the projections. Differently stated, Mr. Dauphinais agrees with CILCO that the purpose of this proceeding is to determine the reasonable, prudent and necessary FAC costs that should be included in base rates. For the reasons Mr. Davidson stated in response to Staff witness Knepler, historical prices are not an appropriate proxy for future costs of power and energy during the current period, when the cost of purchased power is accelerating and future prices are available.

Q12. Does this complete your prepared rebuttal testimony?

A12. Yes, it does.